

**Three Properties in Farmers Branch**

**Presentation of Data**

**Surrounding Land Usage:** Surrounding land uses are as follows:

North: Vacant land  
East: Office development  
South: Vacant land  
West: Vacant land

**Conclusion:** The previously described physical features make the site adequately suited for development with its legally permitted uses. There are no detrimental influences that impact negatively on the subject site.

**2021 Valley View Lane**

**Location:** Northeast corner of Valley View Parkway and Senlac Drive

**Size:** 7.123 acres (310,264 square feet).

**Shape:** Irregular

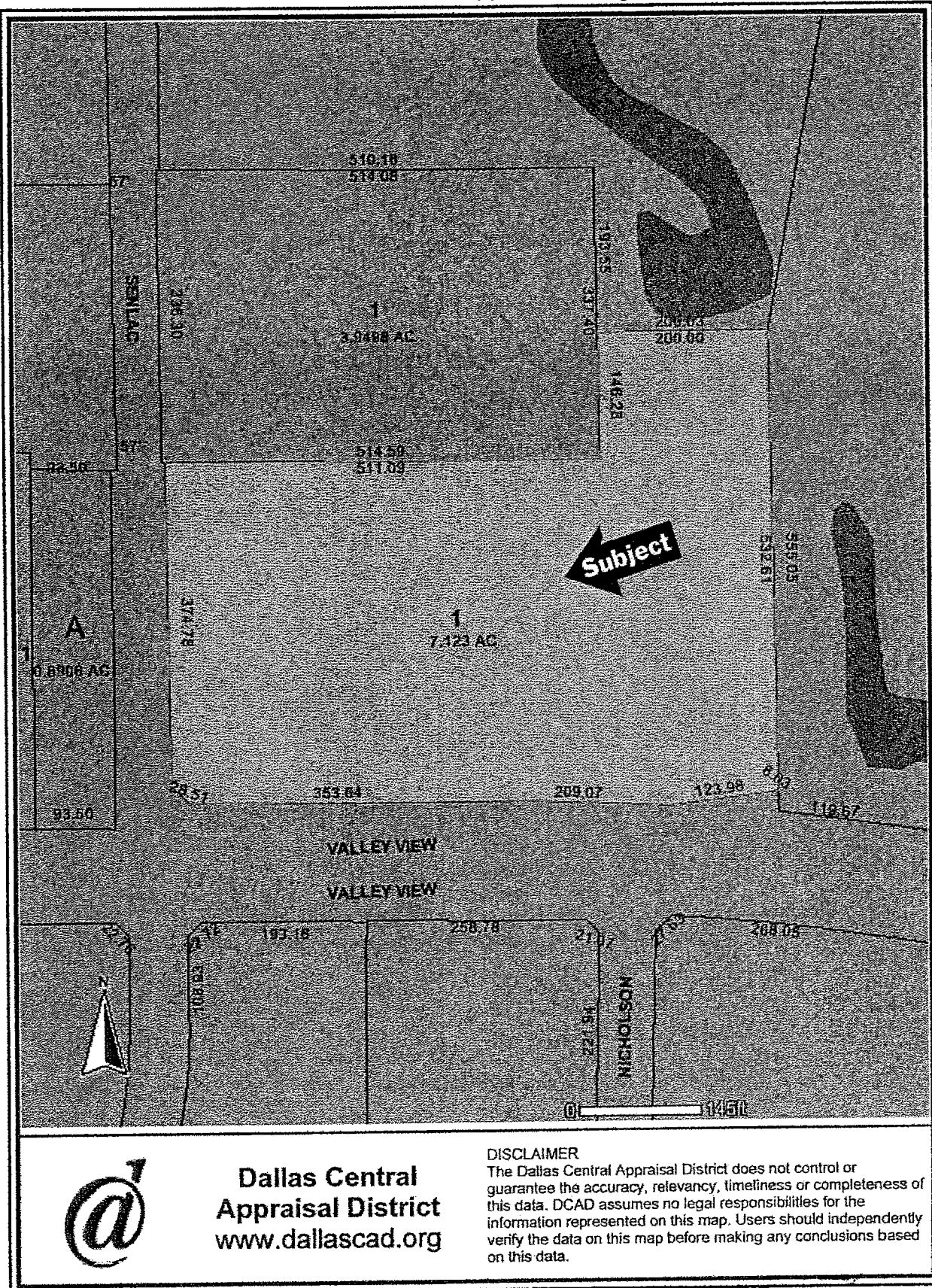
**Frontage:** 478 feet along the north side of Valley View Lane and 375 feet along the east side of Senlac Drive

**Floodplain:** Flood insurance rate map, community panel number 48113C0170J, dated August 23, 1001, published by the Federal Emergency Management Agency indicates that this tract is not located within the floodplain.

**Surrounding Land Usage:** Surrounding land uses are as follows:

North: Vacant land  
East: Industrial development  
South: Industrial development  
West: Industrial development

**Conclusion:** The previously described physical features make the site adequately suited for development with its legally permitted uses. There are no detrimental influences that impact negatively on this subject site.



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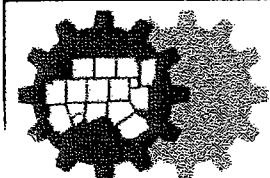
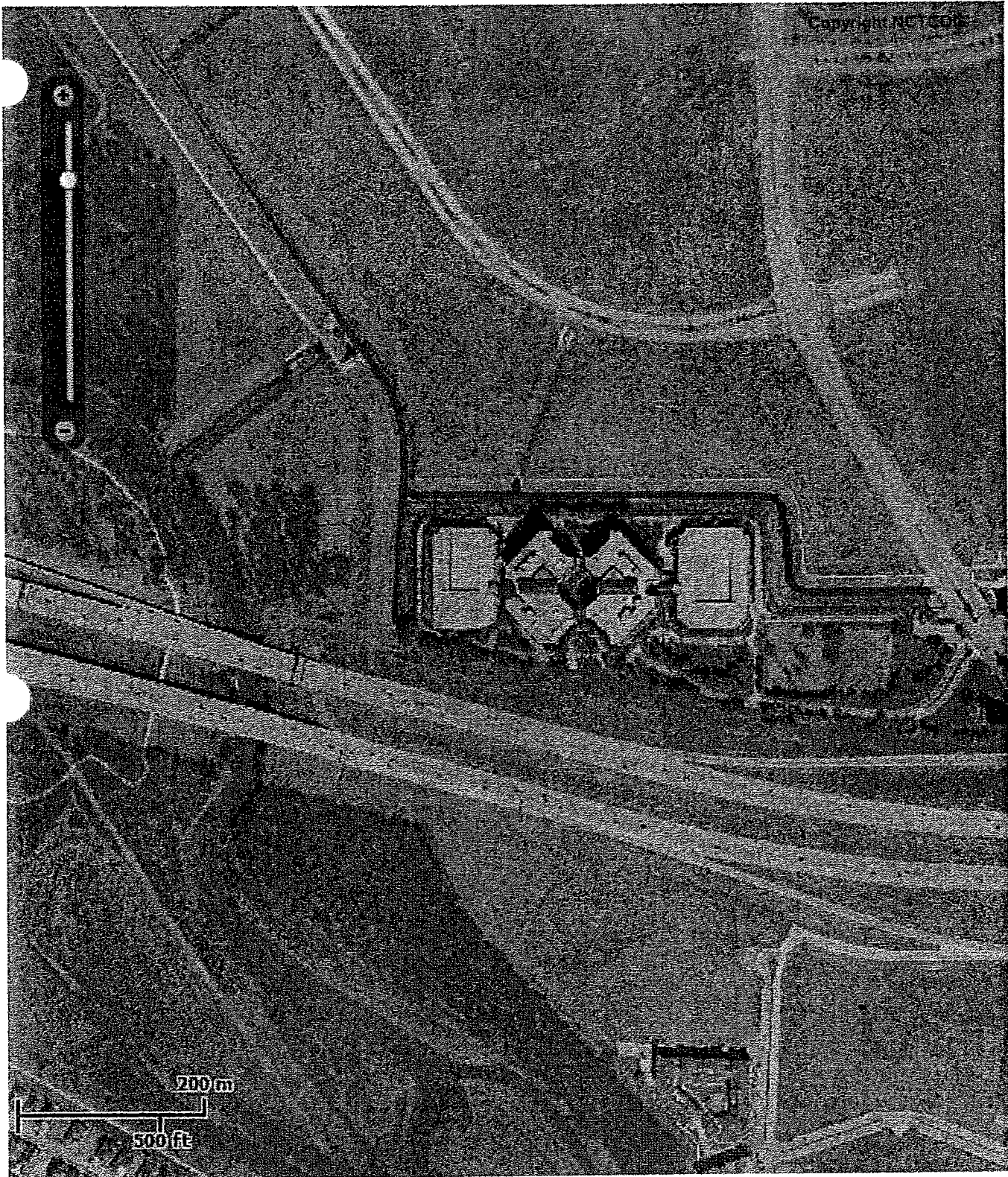
## DESCRIPTION OF IMPROVEMENTS

Two of the subject properties are improved. Specifically, subject's Fenton Centre property is improved with two office buildings; the 2021 Valley View Lane property is improved with an industrial building. We will first describe and analyze the improvements on the Fenton Centre subject property, then the 2021 Valley View Lane subject property.

### Fenton Centre

A portion of the Fenton Centre tract is improved with two, four-story, office buildings containing a total of 696,458 net rentable square feet known as Fenton Centre. A summary of the construction components for the Fenton Centre office buildings is provided below.

<b>Date of Construction:</b>	1985 (Fenton Centre I); 1988 (Fenton Centre II)
<b>Building Class:</b>	A (Per CoStar)
<b>Net Rentable Area:</b>	Fenton Centre I: 345,378 SF Fenton Centre II: 351,080 SF Total: 696,458 SF
<b>Foundation:</b>	Concrete beam
<b>Structure:</b>	Reinforced concrete frame.
<b>Exterior Walls:</b>	Architectural concrete with black aggregate and full-height windows of silver dual-pane glass.
<b>Roofing:</b>	Unknown; assumed to be typical of the marketplace.
<b>Entrance Lobby:</b>	Atrium lobbies with water features and interior landscaping.
<b>Interior Partitions:</b>	Metal stud construction with taped, textured and painted gypsum board. Some individual suites have high finish-out custom features.
<b>Ceilings:</b>	Suspended lay-in acoustical tile in metal grid system in office areas.
<b>Floor Coverings:</b>	Majority of office space is carpeted; some have special finish-out that includes granite, tile and/or stone flooring.



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Fenton Centre  
DFWMaps.com

<http://www.dfwmaps.com/#>

**DISCLAIMER**

This data has been compiled for NCTCOG. Various official and unofficial sources were used to gather this information. Every effort was made to ensure the accuracy of this data, however, no guarantee is given or implied as to the accuracy of said data.



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<b>Hazardous Materials:</b>	No hazardous materials are known to the appraiser, who is not an expert in the field. Should any hazardous materials be proven to exist, a re-evaluation of the subject will be necessary. The reader is directed to the Assumptions and Limiting Conditions section of this report.
<b>Lighting:</b>	Standard recessed incandescent and fluorescent lighting fixtures.
<b>Electrical:</b>	All materials, components and workmanship are assumed to meet the building code requirements of the National Electric Code, the National Board of Fire Underwriters and all local codes and requirements.
<b>Elevators:</b>	16 passenger elevators serve Fenton Centre (four per building wing).
<b>Restrooms:</b>	One men's and one ladies' restroom per wing floor, with ceramic tile floors and ceramic tile and vinyl wall coverings.
<b>Fire Protection:</b>	Wet sprinkler system; fire escape routes and alarm system conform to applicable local codes and requirements.
<b>Plumbing:</b>	Plumbing system is assumed to be in compliance with the National Plumbing Code and all applicable local codes and requirements.
<b>Heating/Air-conditioning:</b>	Heating is supplied to the perimeter zones through variable air volume boxes with direct drive fans and electric heating coils.
<b>Doors and Windows:</b>	Aluminum and glass exterior doors; wood interior doors; standard, metal-framed windows.
<b>Security:</b>	Security card system allowing 24-hour access and on-site security staff monitor and patrol the property.
<b>Site Improvements:</b>	Landscaping; some decorative entry features.
<b>Amenities:</b>	Banking, fitness center, food service, restaurant.

**Parking Area:** Fenton Centre has two adjacent, five-level parking garages. The garage for Fenton Centre I has a total of 1,246 parking spaces (including 25 handicapped spaces). Fenton Centre II has a total of 1,100 parking spaces (including 22 handicapped spaces).

**Parking Ratio:** Fenton Centre I has a parking ratio of 3.6/1,000 SF.  
Fenton Centre II has a parking ratio of 3.1/1,000 SF.

**Land-to-Building Ratio:** 0.99:1; 1.01 FAR

The property is currently 53% occupied to 27 tenants. Subject's tenancy will be discussed in more detail later in the report.

The main buildings and site improvements have experienced physical deterioration since they were completed in 1985 and 1988, but have been well maintained. The effective age of the property is observed to be 20 years.

Based upon current construction industry standards, as well as the probable future trends for development in the subject's market area, the estimated total economic life for the improvements is 50 years. Remaining economic life is estimated at 30 years. The subject therefore, does suffer from physical incurable depreciation. Physical depreciation is estimated at approximately 40% based on the modified age/life method of accruing depreciation. Normal physical depreciation includes items such as interior and exterior repair and painting, roof repair, parking lot maintenance, common area repair, repair of lightweight concrete and replacement of short-lived items, such as roof and HVAC equipment.

The improvements are not considered to suffer from functional obsolescence. External (economic) obsolescence, in the form of the instability in the office and financial markets, is present in the improvements. We will account for this in both approaches to value.

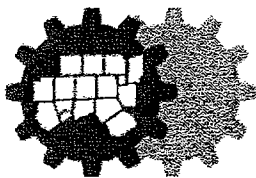
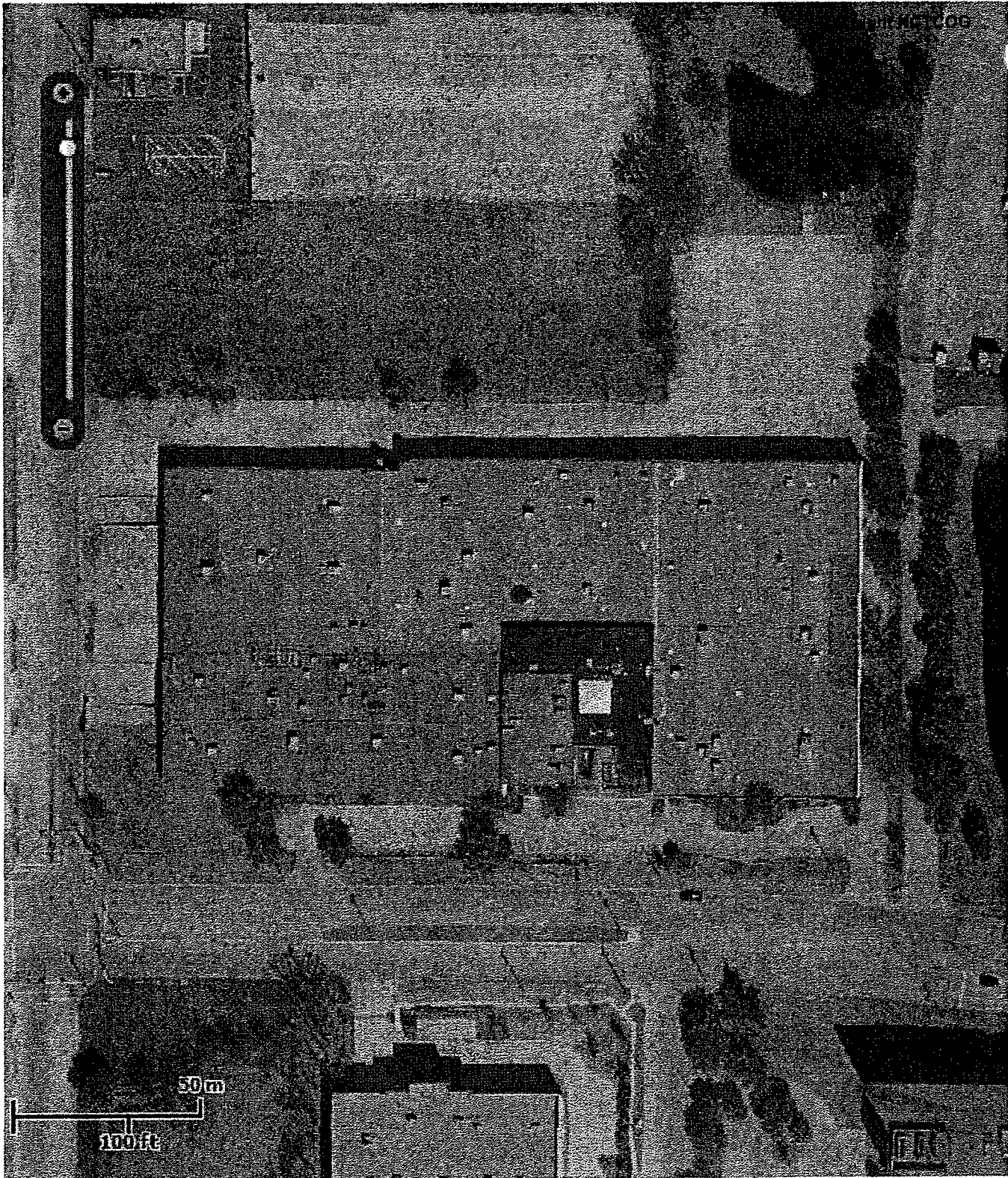
### **2021 Valley View Lane**

The subject property located at 2021 Valley View Lane is improved with an industrial building. A summary of the construction components for the industrial building is provided below. The appraisers were unable to enter into this building. **It is a specific assumption of this report that the assumed condition, functionality and marketability of this building is reasonably similar to that as described herein.**

**Gross Building Area:** 177,805 square feet (per tax records)

**Date of Completion:** 1972 (per tax records)

**Class** B (per CoStar)



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2021 Valley View Lane

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<b>Clear Height:</b>	16' (per leasing agent). This clear height is lower than what the current marketplace requires (20-30').
<b>Foundation:</b>	Concrete beam
<b>Structure:</b>	Concrete block
<b>Exterior:</b>	Reinforced concrete
<b>Roofing:</b>	Unknown; assumed to be typical of the marketplace.
<b>Interior Features:</b>	12,000 square feet is office space (6.7%) per CoStar.
<b>Interior Partitions:</b>	Unknown; assumed to be typical of the marketplace.
<b>Ceilings:</b>	Unknown; assumed to be typical of the marketplace.
<b>Floor Coverings:</b>	Unknown; assumed to be typical of the marketplace.
<b>Lighting:</b>	Unknown; assumed to be typical of the marketplace.
<b>Hazardous Materials:</b>	The appraisers are not trained to detect these substances. A qualified professional in the field should be consulted if the presence of hazardous substances is a matter of concern.
<b>Fire Protection:</b>	Fire escape routes and alarm system assumed to conform to applicable local codes and requirements.
<b>Plumbing:</b>	Plumbing system is assumed to be in compliance with the National Plumbing Code and all applicable local codes and requirements.
<b>Air Conditioning/Heating:</b>	Unknown; assumed to be typical of the marketplace.
<b>Electrical:</b>	All materials, components and workmanship are assumed to meet the building code requirements of the National Electric Code, the National Board of Fire Underwriters and all local codes and requirements.
<b>Doors:</b>	Unknown; assumed to be typical of the marketplace.
<b>Site Improvements:</b>	Except for the few mature trees, the site's landscaping is in poor condition.

**Three Properties in Farmers Branch**

**Presentation of Data**

<b>Loading:</b>	Five dock-high loading doors in two truck wells; one drive-in door.
<b>Parking:</b>	233 spaces per survey (including four handicap spaces).
<b>Land-to-Building Ratio:</b>	1.75:1

The subject property was formerly occupied by a single-tenant, Thermalloy. The building has been vacant since mid-2008. The appraisers were unable to inspect the interior of the improvements. **It is a specific assumption of this report that the assumed condition, functionality and marketability of this building are reasonably similar to that as described herein.**

The appraisers observed items of deferred maintenance on the exterior (parking lot, roof and retaining wall needs to be repaired; exterior needs to be power washed; landscaping needs to be replaced and possibly the electrical power system needs to be repaired (see subject photograph).

In addition, this subject property is significantly affected by functional obsolescence. The subject property only has 16' clear height in an industrial warehouse market which desires 20-30' clear height. The subject's leasing agent indicated that subject's clear height is a major reason why the property hasn't been leased over the past 2.5 years.

As shown in the following land valuation section of this report, this subject site has an estimated value that is higher than its "as is" value. Hence, the subject improvements do not add contributory value to the site (as vacant) and are thus not an economically feasible use of the site. Thus, the subject improvements are considered to have reached the end of their economic life.

## **HISTORY OF THE PROPERTY**

The current owner of subject's Fenton Centre property is TCI Park West II Inc., which purchased the this property from Brandywine Properties Associates LP on January 10, 2007.

Subject's 1700 Valley View Lane property is currently owned by Income Opportunity Realty Investors Inc. which gained title to the property on February 18, 2008.

Subject's 2021 Valley View Lane property is currently owned by Transcontinental Realty Investors Inc. which acquired the property on May 21, 2008 from 2021 Valley View Limited.

No other changes in ownership have occurred during the past three years. The actual sale prices for the above transactions were not made available to the appraisers.

To our knowledge, the subject is not currently offered for sale, nor is it currently under contract.

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## **ANALYSIS OF DATA AND CONCLUSIONS**

## **THE VALUATION PROCESS**

The estimation of a real property's market value involves a systematic process in which the problem is defined; the work necessary to solve the problem is planned; and the data required is acquired, classified, analyzed and interpreted into an estimate of value. In this process, three basic approaches, when applicable, are used by the appraiser: the Sales Comparison Approach, the Income Capitalization Approach, and the Cost Approach. When one or more of these approaches is not applicable in the appraisal process, full justification must be presented. A brief explanation of each approach follows.

The **Sales Comparison Approach** involves the comparison of similar properties that have recently sold or similar properties that are currently offered for sale, with the subject property. The notable differences in the comparable properties are adjusted from the subject property to indicate a value range for the property being appraised. This value range, as indicated by the adjusted comparable properties, is then correlated into a final indicated value for the subject property by this approach.

The **Income Capitalization Approach** is a process in which the anticipated flow of future benefits (actual dollar income or amenities) is discounted to a present value figure through the capitalization process. The appraiser is primarily concerned with the future benefits resulting from net income. The steps in this approach include estimating potential gross income by comparison with competing properties and estimating expenses (derived from historical and/or market experience) to determine a projected net income stream. The income stream is then capitalized into an indication of value by using capitalization rates extracted from competitive properties in the market or by using other techniques when applicable.

Alternatively, the income stream as well as the reversion of the property is converted into an estimate of value by use of a Discounted Cash Flow (DCF) analysis. If both techniques are used, the resultant value indications must be reconciled.

In the **Cost Approach**, the appraiser first estimates the value of the subject site by comparing it to similar sites that have recently sold or are currently offered for sale. The reproduction cost new of the improvements is then estimated. Depreciation from all sources is determined and subtracted from the reproduction cost new of the improvements to arrive at their present value. The present value of all improvements is added to the estimated site value, resulting in an indicated value by the Cost Approach.

In the final reconciliation, the appraiser weights each approach to value as dictated by the individual characteristics of the subject. The final value opinion reflects the results of such deliberation.

## **MARKET ANALYSES**

Given that the subject properties allow typically office and/or industrial uses, we have analyzed the current state of these markets in the Dallas area.

### **I. Dallas Office Market Analysis**

In order to summarize the current state of the office market in the Dallas area and subject submarket, we have relied upon data produced by CoStar Group, a Maryland-based provider of national real estate research data. In our analysis, the Dallas area is defined as the counties of Dallas, Denton, Collin, Ellis, Kaufman, Rockwall, Hunt and Delta.

#### **Overview**

According to the latest data produced by CoStar, the state of the Dallas area office market (as of third quarter 2010), is as follows:

	<b>DALLAS AREA</b>
No. of Buildings	5,788
Existing Space (SF)	261,650,574
2010 Year-to-Date New Supply (SF)	1,615,112
2010 Year-to-Date Net Absorption (SF)	572,200
Gross Occupancy	80.6%
Change from 1 Year Ago	-50 Basis Points
Average Quoted Rent (gross)	\$19.29/SF
Change from 1 Year Ago	- \$0.52/SF (-2.6%)

The table on the following page summarizes historical occupancy, rents and absorption data for the Dallas area office market. All data includes sublease space. Absorption numbers reflect annual figures.

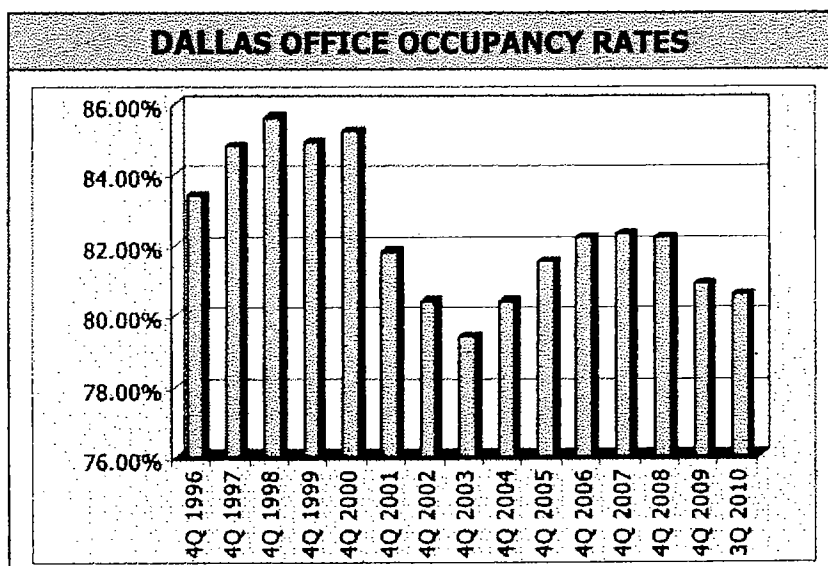
<b>DALLAS AREA OFFICE MARKET</b>				
<b>Quarter/ Year</b>	<b>Occupancy Rate</b>	<b>Gross Rent/SF</b>	<b>Collected Rent/SF*</b>	<b>Annual Net Absorption (SF)</b>
4 <sup>th</sup> Qtr 1996	83.4%	\$17.13	\$14.29	4,596,357
4 <sup>th</sup> Qtr 1997	84.8%	19.52	16.55	5,543,362
4 <sup>th</sup> Qtr 1998	85.6%	21.40	18.32	7,531,748
4 <sup>th</sup> Qtr 1999	84.9%	20.40	17.32	10,023,095
4 <sup>th</sup> Qtr 2000	85.2%	20.51	17.47	4,541,688
4 <sup>th</sup> Qtr 2001	81.8%	19.73	16.14	-903,265
4 <sup>th</sup> Qtr 2002	80.4%	18.18	14.62	-1,320,041
4 <sup>th</sup> Qtr 2003	79.4%	17.43	13.84	-1,331,011
4 <sup>th</sup> Qtr 2004	80.4%	17.43	14.01	3,929,053
4 <sup>th</sup> Qtr 2005	81.5%	17.97	14.65	4,132,671
4 <sup>th</sup> Qtr 2006	82.2%	19.08	15.68	5,584,993
4 <sup>th</sup> Qtr 2007	82.3%	20.23	16.65	4,406,944
4 <sup>th</sup> Qtr 2008	82.2%	20.60	16.93	3,149,863
4 <sup>th</sup> Qtr 2009	80.9%	19.81	16.03	-1,042,963
3 <sup>rd</sup> Qtr 2010**	80.6%	19.29	15.55	572,200
*Occupancy Rate x Rental Rate; **Through 3 <sup>rd</sup> quarter 2010				

## Occupancy

During the first nine months of 2010, employment growth resumed in the Dallas/Fort Worth Metroplex, and vacancy increases were minor compared to last year. In fact, Dallas area occupancy improved on a quarterly basis for the first time in two years. Dallas area occupancy increased to 80.6% as of third quarter 2010, up 60 basis points in the quarter but down 30 basis points year-to-date and 50 basis points year-over-year. Despite the best efforts by landlords to attract tenants with favorable concessions and lower rents, vacancy reached its highest level in more than five years in the second quarter (20.0%). Since year-end 2007, a decline in office-using employment has caused Dallas area office occupancy to fall 170 basis points. The addition of more than 9.55 million square feet of new product since year-end 2007 has played a significant role in driving up vacancy, as did the return of several large blocks of space to the market from a number of tenants.

The surge in new office inventory created a supply/demand imbalance within the Class A sector, causing occupancy to decline 150 basis year-to-date to 79.0%. Class B occupancy was reported at 80.4%, up 50 basis points year-to-date. Class C occupancy was reported at 87.2%, up 70 basis points year-to-date. At the end of the third quarter, more than 50.72 million square feet of vacant office space were on the market in the Dallas area. Sublease inventory totals 2.21 million square feet (4.3% of the current vacant inventory); however, it remains well below its peak of 7.21 million square feet in 2002. According to Costar data, much of the vacancy is concentrated in a few key areas, including downtown Dallas, Las Colinas, and along LBJ Freeway and Stemmons Freeway.

Historical occupancy is graphed subsequently:



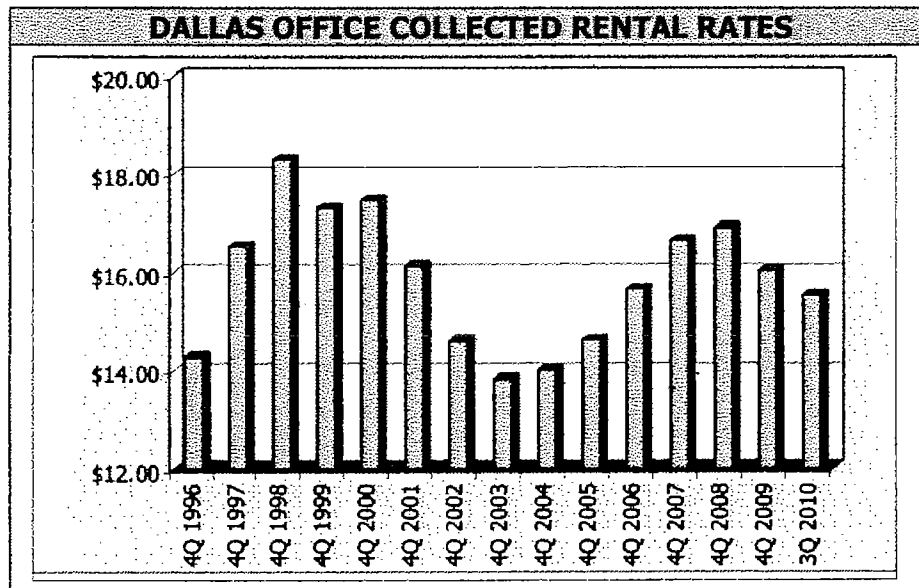
## Rental Rates

Rent reductions continued through the first nine months of 2010 as landlords struggle to maintain negotiating leverage with tenants, but the pace of decline slowed from last year. Asking rents declined to \$19.29/SF in the third quarter, down \$0.12/SF (-0.6%) in the last three months and \$0.52/SF (-2.6%) year-to-date. Rents were adjusted down 3.8% in 2009. Reduced demand for office space has now caused office rental rates to decline or remain flat in nine consecutive quarters. It is generally cheaper for building owners to keep existing tenants so many landlords have been receptive to negotiating these new leases. Of note, sublease transactions are being completed at rates considerably lower than direct lease transactions, thus pulling the weighted average down in the market. Costar data continues to show that areas in proximity to the Dallas and Fort Worth city centers are experiencing the most consistently high asking rates.

The current market favors the tenant, as not only are rents down, but concessions are up. The increased supply of vacant office space and sublease space within the market has forced landlords to offer favorable concession packages marked by more free rent and higher tenant improvement allowances. However, concessions are likely to be reigned in as the year progresses and office employment picks up, causing office leasing activity to increase. Rent growth started to slow in 2008 (+1.8%); compared to 2006 and 2007, when over-the-year solid rent growth of positive 6.2% and 6.0% was reported, respectively.

Collected rent measures the impact of occupancy on rental rates. Increased office vacancy in the Dallas area has decreased collected rent to \$15.55/SF as of third quarter 2010. It should be noted that while landlords have been dropping asking rates with creative incentive packages to attract new tenants, actual rates of deals are often far below what is being asked.

Historical collected rental rates are graphed subsequently:



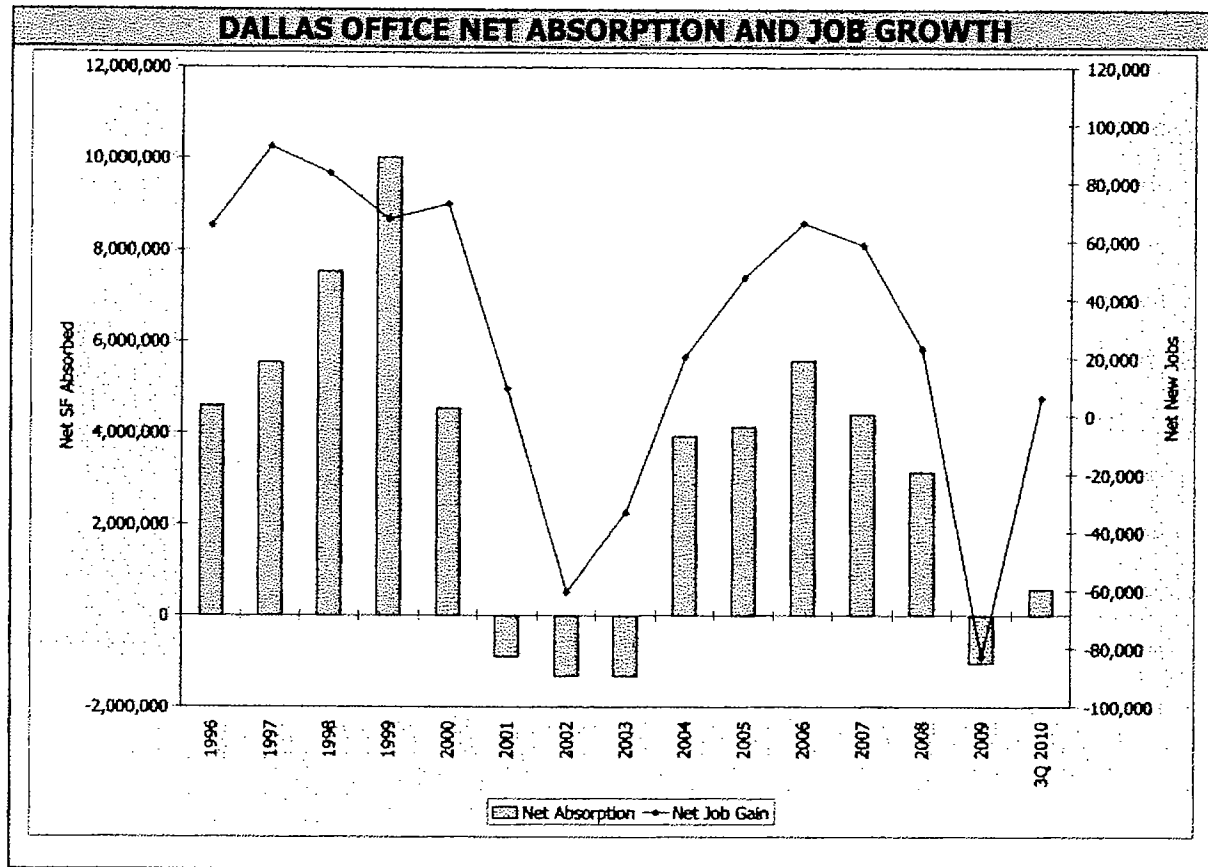
This graph shows the rapid rise in collected rent during the late 1990s and the subsequent decline through 2003. Rents increased from 2003-2008, before declining in 2008, 2009 and 2010 year-to-date. Rents remain below the 1998 peak.

### Absorption

Net absorption of office space totaled positive 1.54 million square feet in the Dallas area during the third quarter 2010, compared to negative 286,760 square feet in the second quarter and negative 680,697 square feet in the first quarter. Year-to-date, net absorption totals 572,200 square feet. Prior to the third quarter, Dallas area office net absorption had been negative in five consecutive quarters. The market benefited from several sizeable leases signed in the first nine months of 2010. These deals include: Denbury Resources (325,000 SF), Quicksilver (115,500 SF) and CB Richard Ellis (90,970 SF).

With many companies downsizing and consolidating, the Dallas office market reported negative net absorption in 2009 (-1,042,963 square feet). While remaining positive, the 2.68 million square feet absorbed (net) since 2008, amounted to only 28.1% of the new supply added over the span. Consequently, vacancy increased over the period. New supply has now outpaced slowing absorption levels since 2005. The national economic downturn has placed additional pressure on tenants and is causing them to hold off on any business decisions in the near term, resulting in space returning to the market at an accelerated pace. The Dallas market absorbed 4.24 million square feet annually from 2004-2008.

Net absorption since 1996 is displayed graphically on the following page (3Q 2010 data reflects three quarter only).



Given the direct linear correlation between job growth (or loss) and office space absorption, the recent uptick in job gains in the Dallas market portend positive trends in the office market.

### New Supply

On the supply side, development activity is slowing and should help alleviate pressure on occupancy rates in the coming year. The Dallas area office market added 1.62 million square feet in the first nine months of 2010, including the lowest quarterly output in more than ten years (4,583 square feet) in the third quarter. However, most of this new space consisted of the Blue Cross Blue Shield of Texas corporate facility that was delivered 100% leased in Richardson. The Dallas area added 2.95 million square feet of new office space in 2009. Construction activity had been elevated, with annual deliveries averaging more than 4.78 million square feet annually from 2005-2008.

According to Costar, there is currently an estimated 521,364 square feet of office space under construction or renovation in the Dallas area, down from 1.86 million square feet just one year ago (-71.9%) and 5.56 million square feet at year-end 2008. The office construction pipeline is basically empty in terms of non-medical, leased office buildings, and new additions to the pipeline in 2010 are expected to be minimal as planned deliveries of speculative space will not likely break ground in the near future until excess space is absorbed and lending restrictions eased. The largest project underway at the end of third quarter 2010 was the Baylor Outpatient Cancer Center, a 459,717-square-foot medical office facility. This current conservative construction trend will likely be a positive influence on the stabilization of the Dallas office market.

Total office inventory in the Dallas area amounted to 261,650,574 square feet within 5,788 buildings (average 45,200 square feet per building) as of third quarter 2010.

### Subject Submarket (DFW Freeport/Coppell)

According to CoStar Group, the subject falls within the DFW Freeport/Coppell office submarket.

The following table shows historical trends in inventory and annual absorption for all classes of multi-tenant office space in the subject submarket and the overall Dallas area. All data includes sublease space. Absorption figures reflect annual data.

Quarter /Year	Submarket -- DFW Freeport/Coppell				Dallas Area			
	Occupancy Rate (%)	Rental Rate/SF	Collected Rent/SF*	Absorption Net (SF)	Occupancy Rate (%)	Rental Rate/SF	Collected Rent/SF*	Absorption Net (SF)
04/01	83.7%	\$19.07	\$15.96	129,947	81.8%	\$19.73	\$16.14	-903,265
04/02	82.8%	16.26	13.46	271,984	80.4%	18.18	14.62	-1,320,041
04/03	83.5%	17.49	14.60	317,898	79.4%	17.43	13.84	-1,331,011
04/04	86.0%	17.32	14.90	319,484	80.4%	17.43	14.01	3,929,053
04/05	87.4%	16.84	14.72	822,184	81.5%	17.97	14.65	4,132,671
04/06	87.4%	19.19	16.77	151,609	82.2%	19.08	15.68	5,584,993
04/07	84.1%	21.01	17.67	164,423	82.3%	20.23	16.65	4,406,944
04/08	79.7%	19.90	15.86	-55,341	82.2%	20.60	16.93	3,149,863
04/09	80.0%	19.61	15.69	98,384	80.9%	19.81	16.03	-1,042,963
03/10**	81.9%	19.47	15.95	216,446	80.6%	19.29	15.55	572,200

\*Occupancy Rate x Rental Rate \*\* Though 3<sup>rd</sup> quarter 2010

### Occupancy

At the end of the third quarter 2010, DFW Freeport/Coppell submarket occupancy was 81.9%, up 90 basis points in the last three months and 170 basis points year-over-year. Supply/demand imbalances, however, have caused submarket occupancy to fall 550 basis points since year-end 2006. According to Costar, there was almost 2.0 million square feet of vacant office space within the submarket at the end of the third quarter. Submarket occupancy is currently 130 basis points greater than the overall Dallas area (80.6%).

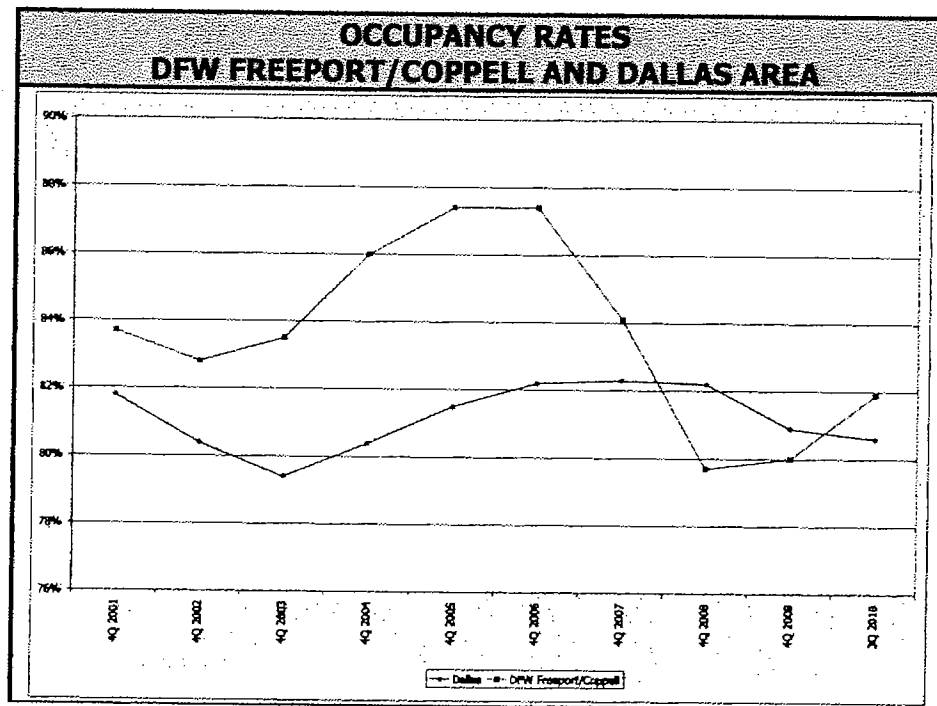
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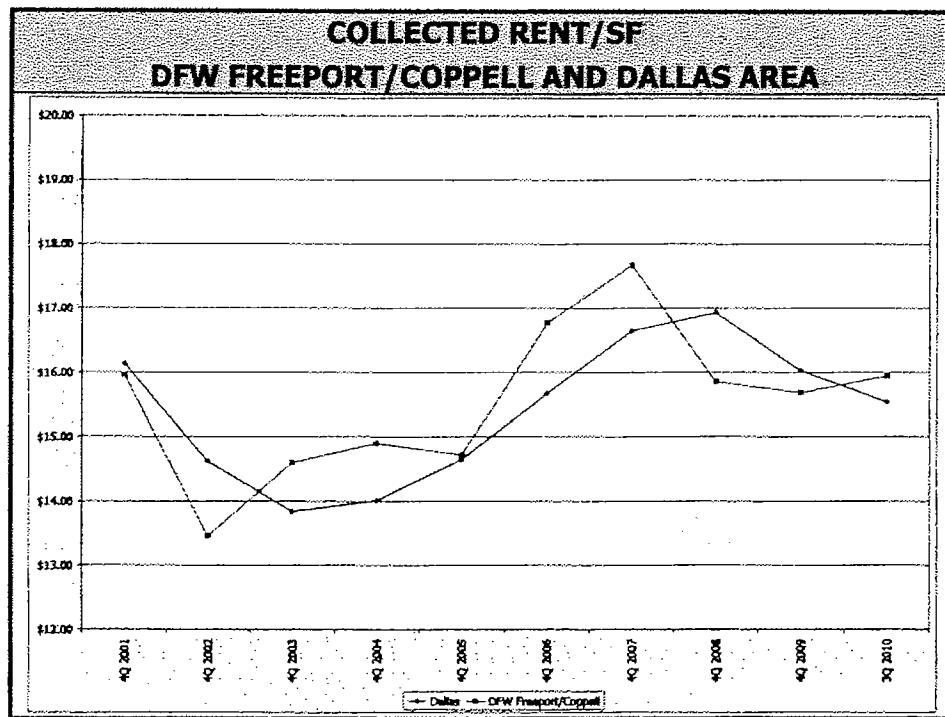
**Analysis of Data and Conclusions**

**Rental Rates**

Rising vacancy rates have applied downward pressure on rental rates within the submarket. DFW Freeport/Coppell rental rates declined to \$19.47/SF at the end of the third quarter, down \$0.14/SF or 0.7% year-to-date. Rental rates were adjusted down 1.5% in 2009. At the end of the third quarter, submarket rental rates were 0.9% greater than the overall Dallas area (\$19.29/SF).

The following graphs reflect trends in this submarket against the overall Dallas market in terms of occupancy rates and collected rent/SF. Collected rent is a reliable indicator of performance because it measures the impact of occupancy on rental rates.





## Absorption

Submarket office demand was positive in the third quarter 2010, with tenants taking 101,742 square feet from the market during the quarter. Year-to-date, net absorption totals positive 216,446 square feet. Net absorption totaled positive 98,384 square feet in 2009. Declining demand for office space across the Metroplex will likely continue to put negative pressure on both rental and occupancy rates within the submarket.

## Supply

According to Costar, the DFW Freeport/Coppell submarket did not add any new office development in the first nine months of 2010. The submarket added 86,100 square feet in 2009. Since 2005, developers have completed and delivered 1.97 million square feet of new office development within the submarket, or 17.8% of the current inventory. At the end of the third quarter 2010, there was no ongoing office construction in the DFW Freeport/Coppell submarket. The lack of new office construction should help the submarket stabilize once economic conditions improve in the region.

Total office inventory in the submarket amounted to 11,073,696 square feet within 169 buildings (average 65,500 square feet per building) as of third quarter 2010. The submarket accounts for 4.2% of total office space in the overall Dallas area.